

**Wokingham Borough  
Council**

**Audit results report**

Year ended 31 March 2021

March 2022

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**EY**

Building a better  
working world

Agenda Item 61.

22 March 2022



Wokingham Borough Council  
Audit Committee  
Civic Offices,  
Shute End  
Wokingham  
RG40 1BN

Dear Audit Committee Members

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. Our audit is substantially complete. However, there are two issues which will delay the final completion of the audit. Firstly, we are finalising our work in relation to the assurances received from the auditor of Berkshire Pension Fund (see page 21). Secondly, a national issue in relation to the accounting for infrastructure assets affecting all unsigned 2020/21 audits is being considered by CIPFA (see page 17). We will update the Audit Committee at its meeting scheduled for 30 March 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Wokingham Borough Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 March 2022.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Wokingham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Wokingham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wokingham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report and updated planning report presented to the 15 September 2021 and 30 November 2021 Audit Committee meetings respectively, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### ▶ **Changes in materiality**

Due to the net impact of the misstatements identified in the accounting for Covid-19 grant income as detailed in section 2, we were required to revisit our materiality considerations and calculation. Consequently, our group planning materiality reduced from £8.15m to £7.68m. This results in updated group performance materiality, at 75% of overall materiality, of £5.76m, and an updated threshold for reporting misstatements of £383k. The reduction in materiality impacted on our testing thresholds for all accounts, and additional sampling was required.

### ▶ **Additional audit procedures as a result of Covid-19**

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy for all local authorities were as follows:

- **Information Produced by the Entity (IPE):** We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

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- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

## Status of the audit

Our audit work in respect of the audit opinion is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

### Detailed audit procedures:

- ▶ Final completion of additional work on Capital Receipts in Advance
- ▶ Final completion of our work on the revaluation of land and buildings classified as property, plant and equipment, investment property and surplus assets
- ▶ Final conclusions and adjustments for the accounting treatment of the Elms Field properties
- ▶ Final completion of our work on the net pension liability valuation as indicated on page 2
- ▶ Final completion of our work on the group consolidations workings and disclosures
- ▶ Resolution of the infrastructure assets accounting issue which is being considered by CIPFA as indicated on page 2.

### Conclusion procedures:

- ▶ Final check of the updated financial statements and adjustments after completion of all outstanding procedures
- ▶ Final review of key working papers
- ▶ Update of our subsequent events procedures to the date of our opinion
- ▶ Receipt of a signed letter of management representation

In addition we cannot complete our work on the Whole of Government Accounts submission as we have yet to receive the NAO instructions on this for 2020/21.

# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Status of the audit - value for money

In the updated audit planning report presented to the Audit Committee on 30 November 2021, we reported that we had completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment as part of our completion of the audit of the financial statements and we remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03).

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report within three months of issuing the auditor's report.

# Executive Summary

## Audit differences

As at 18 March 2022:

- ▶ There are three unadjusted differences at 18 March 2022. We have set out these in more detail in Section 4 - Audit Differences.
- ▶ There are five misstatements greater than £5,756k at 18 March 2022 have been corrected by management. We have set out these in more detail in Section 4 - Audit Differences.
- ▶ A small number of amendments were made to components and disclosures in the financial statements as a result of our work.

As elements of our audit work are ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the meeting on 30 March 2022 if we identify any issues by the time of the meeting.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until later in 2022. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HM Treasury make to the DCT and process. The delay in completion of our WGA procedures does not impact the audit opinion, but will delay the issue of our audit certificate.

We have no other matters to report as at 18 March 2022.

# Executive Summary

## Areas of audit focus

In our audit planning report, and subsequent update, we identified a number of key areas of focus for our audit of the financial report of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Fraud Risk	Findings & Conclusions
Misstatements due to fraud or error (management override)	We have not identified any material weaknesses in controls or evidence of material management override, instances of inappropriate judgements being applied; or any other transactions during our audit which appear unusual or outside the Council's normal course of business.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	<p>Our work in this area is complete subject to review. From our sample testing of additions to PPE, we have:</p> <ul style="list-style-type: none"> <li>• Found costs had been correctly classified as capital and included at the correct value.</li> <li>• Did not identify any revenue items that were incorrectly classified as capital.</li> </ul> <p>Our review of judgements taken by management found them to be reasonable. Further details are set out in Section 2 of this report.</p>
<p>Valuation of Land &amp; Buildings in Property, Plant &amp; Equipment (PPE) and Investment Properties (IP)</p>	<p>Our work in this area is nearing completion as at 18 March 2022.</p> <p>From our work performed, we have identified unadjusted judgemental differences in the values of two properties included in PPE and one property in IP.</p> <p>A further issue was raised with the NAO LG technical network in March 2022 in relation to the accounting for infrastructure assets. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most councils do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulation is therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.</p> <p>We have reviewed the balance sheet for Wokingham Borough Council. In 2020/21, some £23.05m additions to infrastructure were recognised, and there were no derecognitions. In 2019/20, the equivalent figure was £9.91m additions and no derecognition. This would suggest the Council, like most others, may not be fully compliant with the Code. In common with other councils, there may not be sufficient information on which to comply.</p> <p>CIPFA has engaged positively with the issue, and are considering a potential Code amendment, although it is also clear that the amendment would not go so far as to say that authorities can do nothing. However, this will likely require a consultation period before a conclusion is reached on the way forward for councils and auditors. In discussion with management we have concluded that if CIPFA is considering a Code amendment we should pause completion of the audit to assess what form this takes and whether it allows councils to become Code compliant.</p> <p>Further details are set out in Sections 2 and 4 of this report.</p>

# Executive Summary

## Areas of audit focus

In our audit planning report, and subsequent update, we identified a number of key areas of focus for our audit of the financial report of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Area of audit focus / Inherent risk	Findings & Conclusions
Accounting for Covid-19 related government grants (Inherent risk)	From our work performed we have identified a number of grants that were incorrectly accounted as either the Council acting as principal instead of agent or vice versa. Further details are set out in Sections 2 and 4 of this report.
Pension Liability and Asset Valuation (Inherent risk)	<p>Our work in this area is well progress as at 18 March 2022. Further details are set out in Section 2 of this report.</p> <p>We have liaised with the auditors of the Berkshire Pension Fund and have identified the following:</p> <ul style="list-style-type: none"> <li>▶ These assurances contained a caveat stating that their work was ongoing at the time of its issuing and that there is still a risk of material matters arising. We are consulting with our professional practice department on the impact of this caveat for issuing our auditor's report.</li> <li>▶ We identified differences in membership data used to compile the IAS19 reports by the Pension Fund actuaries. We have engaged our pensions expert to determine that the impact thereof on the pension fund liability value at year end.</li> </ul> <p>As at 18 March 2022 these matters are with the audit team to conclude.</p> <p>Further details are set out in Section 2 of this report.</p>
Going Concern (Area of audit focus)	<p>We have reviewed management's going concern assessment and confirm their conclusion that the Council remains a going concern is based on reasonable and supportable assumptions.</p> <p>We have also reviewed management's going concern disclosure and confirmed it is sufficiently detailed, transparent and accurately reflects management's underlying going concern assessment.</p>
Accounting for Public Finance Initiative (PFI)	We reviewed the PFI entries and disclosures in the Council's accounts and concluded they are appropriately reported.
Cash and cash equivalents	We have completed our work and concluded that limited progress had been made to ensure that the Council's imprest bank accounts within its portfolio were reconciled on a regular basis. Further details are set out in Section 2 of this report.
Group Accounting	Our work in this area remains in progress as at 18 March 2022. Further details are set out in Section 2 of this report.

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# Executive Summary

## Areas of audit focus (cont.)

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

## Control observations

We have adopted a fully substantive approach, and so have not tested the operation of controls. We have, however, updated our understanding of the key processes and the controls which are in place to detect or prevent error. Through this work, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

However, we have reported on a number of control observations in Section 7 of this report.

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## Independence

Please refer to Section 7 for our update on Independence.



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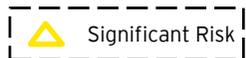
## 02 Areas of Audit Focus



# Areas of Audit Focus

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the audit procedures performed and conclusions formed for each risk.

## Misstatements due to fraud or error\*



### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

### What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified significant risk - Inappropriate capitalisation of revenue expenditure.

Our work on estimates focussed on the valuation of land & buildings in Property Plant and Equipment (PPE) and Investment Property (IP) as significant risk and IAS19 pension estimates as areas of higher inherent risk and are reported further in this report.

### What did we do?

We have performed the procedures described in our original audit plan. Please see the following page for full details.

### What are our conclusions?

Our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicated that there had been any misreporting of the Council's financial position, or that management had overridden control.

We have completed our journals testing. We are satisfied that journal entries had been posted properly and for genuine business reasons.

We have reviewed material estimates, such as the valuation of land & buildings in PPE and IP and the IAS19 pension estimate. Our work in these areas has resulted in amendment to the financial statements, but no indication of fraud was identified.

There were no unusual transactions identified.



## Areas of Audit Focus

### Significant risk



#### Further details on procedures/work performed

We identified the key fraud risks at the planning stage of the audit and considered the effectiveness of management's controls that are designed to address the risk of fraud. We updated our understanding of the risks of fraud and the controls put in place to address them and made enquiries of Internal Audit, management and those charged with governance to support our understanding.

We have:

- ▶ Determined an appropriate strategy to address those identified risks of fraud which have been reflected in the significant risks in this document.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.

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We have performed mandatory procedures regardless of specifically identified fraud risks, including:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Undertaking a detailed review of accounting estimates for evidence of bias (such as the valuation of land, buildings and investment property) and substantively testing unusual or unexpected transactions. No evidence of override was identified, and no unusual transaction have been identified from work completed to date.
- ▶ Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.

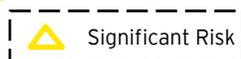
Having re-evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We continued to conclude that only those procedures included under 'Inappropriate capitalisation of revenue expenditure' were required - See the next page for further details.



## Areas of Audit Focus

### Significant risk

**Risk of misstatements due to fraud or error – specifically in inappropriate capitalisation of revenue expenditure\***



#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

Capitalised revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid.

#### What judgements are we focused on?

We focused on the Council's judgements to classify expenditure as either revenue or capital in nature. We tested a sample of items to confirm that the Council's judgement was supported by sufficient evidence and was genuinely capital in nature.

#### What did we do?

Our approach focused on:

- ▶ Testing a sample of PPE and IP additions to ensure that the expenditure incurred and capitalised is clearly capital in nature and that the transaction was supported by sufficient evidence to verify its value and the period it related to.
- ▶ Identifying and testing significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year. This provided assurance that the transactions were adequate, supported by evidence and valid.
- ▶ Testing a sample of revenue expenditure funded from capital under statute (REFCUS), to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources. As with PPE additions, we also ensured these items were supported by sufficient evidence to verify the value and the period it related to.



## Areas of Audit Focus

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### Significant risk

#### What are our conclusions?

Our work is completed subject to internal review. Based on the work performed:

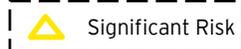
- ▶ Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- ▶ Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- ▶ Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes



## Areas of Audit Focus

### Significant risk

#### Valuation of Land & Buildings in Property Plant and Equipment (PPE) and Investment Property (IP)



#### What is the risk?

The value of land & buildings in PPE and in IP represent significant balances in the Council's accounts and are subject to valuation changes and impairment reviews. Management is required to make a high degree of material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Given the nature of Covid-19 and the fact that 2020/21 was predominantly influenced by local and national lockdowns, we anticipate that the valuer will not be able to conduct site visits due to the restrictions that are in place and that the valuer will have to perform a remote approach to valuing the properties which will further increase the risk around these valuations.

Several misstatements were furthermore identified in property valuations during the prior year's audit that required subsequent material adjustments to PPE and IP balances.

#### What judgements are we focused on?

We focused on those assumptions that directly impact the valuation of these assets - such as the use of information based on areas of the economy under stress (such as retail), location factors, useful lives and estimation of year on year valuation movements.

#### What did we do?

Our approach focused on:

- ▶ Considering the work performed by the Council's internal valuer and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is in line with our expectations.
- ▶ Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions as a result of the Covid-19 pandemic.
- ▶ Challenging the assumptions used by the Council's valuer by reference to external evidence and our valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail.
- ▶ Sample testing key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- ▶ Confirming that the valuation was undertaken to ensure all assets required to be valued in line with the Council's five year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code.
- ▶ Assessing those assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to the useful economic lives as a result of the most recent valuations and
- ▶ Tested the accounting entries posted via journal to ensure they have been correctly processed in the financial statements.



## Areas of Audit Focus

# Significant risk



### What are our findings?

As at 18 March 2022 our work in this area is nearing completion.

From our work performed to date, we have:

- ▶ Considered the work performed by the Authority's internal valuer and confirmed that the scope of the work performed is adequate, they had the appropriate professional capabilities to complete the work and the results of their work is largely in line with our expectations.
- ▶ Challenged the assumptions used by the Authority's valuer by reference to external evidence and our valuation specialists. This included considering significant or unusual movements in valuation and investments in areas of the economy under stress, such as retail.
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. building areas to support valuations based on price per square metre).
- ▶ Confirmed that the valuation was undertaken to ensure all assets required to be valued in line with the Authority's five year rolling programme had been completed, and that all investment property had been revalued in year as required by the Code.
- ▶ Assessed those assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.

Our work is nearing completion with our testing of the accounting entries posted via journal to ensure they have been correctly processed in the financial statements still ongoing.

From our work to date, we are satisfied with the valuation of Land and Buildings in PPE and IP, with the exception of:

1. PPE:
  - i. Valuation indexation incorrectly applied to properties already disposed of:

The Shinfield Infant School, Westende Junior School and Keep Hatch Primary School were incorrectly included as part of the valuation indexation applied to properties after they had been disposed of. This resulted in an overstatement of £6,332k in PPE which has been corrected by management. Further details have been set out in section 4 of this report.
  - ii. Incorrect classification of residential properties in the Elms Field Development:

Through our testing of the property valuations within the Elms Field Development, we identified a number of residential properties that had been incorrectly classified as operational land and buildings. These properties were constructed with the aim of being sold at market value and should therefore fall under the scope of IAS2, *Inventory*, rather than IAS16, *Property, Plant and Equipment*. These construction costs were consequently capitalised as Assets Under Construction in the current and prior years and subsequently require adjustments in both the current and prior periods to reclassify these as inventories. As at 18 March 2022, the audit team is in the process of determining the accuracy of these proposed adjustments.



## Areas of Audit Focus

# Significant risk



### What are our findings?

#### iii. Use of EY Real Estate:

We asked our specialist to review 10 properties, selected from those assets revalued in 2020/21 within PPE. We challenged the valuation for 2 properties where the value fell outside a reasonable range of valuations established by EYRE for each asset:

- EYRE challenged several assumptions underpinning the Carnival Pool Multi Storey Car Park property valuation of £6.88m and disagreed with the methodology used in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end and their local knowledge. This valuation consequently remains outside our acceptable range as determined by EYRE of between £4.52m to £5.03m. We have therefore reported an unadjusted judgemental difference of £1.85m. See Section 4 - Audit Differences.
- EYRE challenged several assumptions underpinning the Civic Centre property valuation of £10.57m and disagreed with the length of void periods used in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end and their local knowledge. This valuation consequently remains outside of our acceptable range as determined by EYRE of £6.48m and £9.06m. We have therefore reported an unadjusted judgemental difference of £1.51m. See Section 4 - Audit Differences.

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#### i. Use of EY Real Estate:

We asked our specialist to review 2 assets. We challenged the valuation for 1 asset where the value fell outside a reasonable range established by EYRE for each asset:

- EYRE challenged several assumptions underpinning the Wickes Retail Unit property valuation of £12.00m and disagreed with the yield applied in determining the property valuation. This valuation has not been adjusted as management is of the opinion that their valuation best reflects the value of this property at year end. This valuation consequently remains outside our acceptable range determined by EYRE of £8.37m to £9.68m. We have therefore reported an unadjusted judgemental difference of £2.32m. See Section 4 - Audit Differences.

We assessed whether any of these differences had a wider impact on the valuation of PPE and IP, and in each case we concluded the assets had unique characteristics which allows us to conclude these judgemental differences are specific/unique to these assets.

#### 2. Infrastructure assets:

Subsequent to issuing our audit plan, an issue was raised with the NAO LG technical network in March 2022 in relation to the accounting for infrastructure assets on a sector-wide basis. Under the CIPFA Code of Local Authority Accounting, these assets are held at depreciated historic cost. Following more detailed consideration by auditors this year, it has been identified that whilst local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be reviewing the Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore, are not derecognising the old component. As a consequence gross cost/gross accumulation is therefore continually increasing, and the balance sheet may be misstated where the expenditure is a replacement for an asset/component not fully depreciated.



## Areas of Audit Focus

# Significant risk



### What are our findings?

We have reviewed the balance sheet for Wokingham Borough Council. In 2020/21, some £23.05m additions to infrastructure were recognised, and there were no derecognitions. In 2019/20, the equivalent figure was £9.91m additions and no derecognition. This would suggest the Council, like most others, may not be fully compliant with the Code. In common with other councils, there may not be sufficient information on which to comply.

CIPFA has engaged positively with the issue, and are considering a potential Code amendment, although it is also clear that the amendment would not go so far as to say that authorities can do nothing. However, this will likely require a consultation period before a conclusion is reached on the way forward for councils and auditors. In discussion with management we have concluded that if CIPFA is considering a Code amendment we should pause completion of the audit to assess what form this takes and whether it allows councils to become Code compliant.

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### What are our conclusions?

We will provide an update at the Audit Committee 30 March 2022.

## Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
<p><b>Accounting for Covid-19 related government grants</b></p> <p>The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>We considered the Council's judgement on material grants received in relation to whether it is acting as:</p> <ul style="list-style-type: none"> <li>▶ Agent, where it has determined that it is acting as an intermediary; or</li> <li>▶ Principal, where the Council has determined that it is acting on its own behalf.</li> </ul> <p>For grants received where the Council acted as principal, we have further considered whether any associated restrictions and conditions have been met and that grants have been claimed and recognised in accordance with the scheme rules.</p>	<p>From our work performed we identified a number of grants that were incorrectly accounted as either the Council acting as principal instead of agent or vice versa.</p> <p>The net impact of this adjustment reduced gross revenue expenditure and income by £23,799k which consequently led to the revision of our materiality calculation as detailed in section 1 of this report. These adjustments however had no impact on the General Fund balance itself. Further details are set out in sections 4 of this report.</p> <p>Following these adjustments, we are satisfied that the accounting treatment adopted for Covid-19 related government grants was correct and accorded with the Council's assessment of whether it was acting as agent or principal, the underlying conditions of the grant and whether those conditions had been met.</p>

## Audit risks

### Other areas of audit focus (continued)

#### What is the area of focus?

##### Net Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Berkshire Pension Fund, administered by the Royal Borough of Windsor and Maidenhead (RBWM).

The Council's pension fund liability is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £358.0m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What did we do?

We have:

- ▶ Liaised with the auditors of the Berkshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Wokingham Borough Council;
- ▶ Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Engaged our EY Pensions team to create a point estimate range based on their experience and understanding of defined benefit pension schemes.

We also considered outturn information available at the time we undertook our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We used this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments were required.

## Other areas of audit focus (continued)

### What are our conclusions?

As at 18 March 2022 our work in this area is well progressed with the remaining issues below with the audit team to conclude as at 18 March 2022.

From our work performed to date, we have identified the following:

▶ IAS 19 assurances:

- ▶ We liaised with the auditors of the Berkshire Pension Fund and reviewed the audit assurances received from them in mid January 2022. From these assurances we identified the following:
  - ▶ These assurances contained a caveat stating that their work was ongoing at the time of its issuing and that there is still a risk of material matters arising. We are consulting with our professional practice department on the impact of this caveat for issuing our auditor's report.
  - ▶ We identified differences in membership data used to compile the IAS19 reports by the Pension Fund actuaries. We have engaged our pensions expert to determine that the impact thereof on the pension fund liability value at year end.

These issues pertain to external reports used by the Council during the compilation of their Statement of Accounts.

- ▶ The Council requested an updated IAS19 report from the Berkshire Pension Fund actuary following the identification of a material adjustment to the Fund's Statement of Accounts. We assessed the work of the Pension Fund actuary, including the assumptions they used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors. We have also considered the relevant reviews by the EY actuarial team and have not identified any issues.
- ▶ We completed our review and testing the accounting entries and disclosures made within the financial statements in relation to IAS19 with no issues arising.
- ▶ The outcome from the EY Pension team's analysis was a difference between the actuary and EY Pensions Consulting of less than 1.5% for the Council's pension fund liability and less than 1.0% for Optalis Holdings Ltd. These both fell within our acceptable range, and provided us with corroborative assurance that the input control for the Council's actuarial model was working appropriately.

We will provide an update at the Audit Committee on 30 March 2022.



## Audit risks

### Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
<p><b>Accounting for Public Finance Initiative (PFI)</b></p> <p>The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract entered into with Reading and Bracknell Forest Councils in 2006/07 for the disposal of waste.</p> <p>The total outstanding value of the contract is estimated to be £101.5m as at 31 March 2021, to be shared between the Councils based on usage.</p> <p>Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £37.8m over the next 15 years of the contract.</p> <p>As part of the contract, the contractor built a transfer station, materials recycling facility, civic amenity site and offices. The Council's share of the assets, valued at £6.4m as at 31 March 2021, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2021, was reported as £5.3m.</p>	<p>PFI is a complex area and we commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils as part of the 2018/19 audit.</p> <p>Work conducted by our PFI specialist in 2018/19, included:</p> <ul style="list-style-type: none"> <li>▶ a review of the assumptions used in the RE3 PFI accounting model; and</li> <li>▶ comment on local adjustments, if any, by Wokingham Council, made to the output from the RE3 model held by the host council, Reading Borough Council.</li> </ul> <p>For the 2020/21 audit, our work focused on:</p> <ul style="list-style-type: none"> <li>▶ reviewing of the assumptions used in the Waste PFI accounting model;</li> <li>▶ commenting on local adjustments, made by the Council, following any changes to the accounting model held by the host council, Reading Borough Council;</li> <li>▶ reviewing the planned entries and disclosures for the Council's 2020/21 accounts.</li> </ul>	<p>Based on our work performed we have no issues to report as we found that the PFI entries and disclosures for the Council's 2020/21 accounts are appropriate.</p>

## Audit risks

### Other areas of audit focus

#### What is the area of focus?

##### Cash and cash equivalents

There are a number of imprest bank accounts to the value of £1.5m within the Council's current portfolio included in Cash and Cash Equivalents of £131.3m as at 31 March 2021.

In the prior year these imprest bank accounts contained a number of unreconciled differences between the Council's accounting records and statements from the relevant financial institutions. Although these differences were not material, there is a risk relating to appropriate record keeping and prevention of undetected irregularities in the absence of these reconciliations performed on a regular basis.

#### What did we do?

We have increased our focus on these imprest bank accounts to confirm that regular bank reconciliations are performed to ensure that there are no unexplained differences between the Council's accounting records and statements from the relevant financial institutions.

#### What are our conclusions?

Based on our work, limited progress has been made by the Council to ensure that regular bank reconciliations are performed and that there are no unexplained differences between the Council's accounting records and statements from the relevant institutions. Although the unexplained differences remained in 2020/21 the difference of £145k remains below our reporting thresholds.

We have repeated our control finding from last year on this in Section 7.

## Audit risks

### Other areas of audit focus

What is the area of focus?	What did we do?	What are our conclusions?
<p><b>Group Accounting</b></p> <p>IFRS 10, 11 and 12 set out the requirements which must be followed when assessing and disclosing group and joint arrangements. Where the Council has interests in other entities, it needs to undertake qualitative and quantitative assessments to inform its decisions as to whether group accounts are required.</p> <p>The Council is therefore required to prepare group accounts which involves consolidating the financial statements of its following subsidiaries:</p> <p>30 Optalis Holdings Ltd that provides Adult Social Care Services;</p> <ul style="list-style-type: none"> <li>▶ WBC Holdings (WBC) Ltd that provides social and affordable housing. (WBC also includes Wokingham Housing Ltd, Loddon Homes Ltd and Berry Brook Homes Ltd as its subsidiaries)</li> </ul> <p>These subsidiaries contain accounting entries and balances that can be considered material or significant to the group, and will be classified as either full or specific scope audits.</p> <p>During the prior year, misstatements in group consolidation entries and workings, group cash flow calculations, and the misalignment of accounting policies between the group accounts and those of the subsidiaries required numerous corrections to the consolidated group accounts.</p> <p>This is consequently an area of potential complexity and judgment requiring regular review.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Considering if these subsidiaries are individually material or significant to the group, and classify them either full or specific scope audits;</li> <li>▶ Requesting that the auditors of these subsidiaries (Hazlewoods Ltd for Optalis Holdings Ltd; and Haslers for WBC Ltd and its subsidiaries) undertake a programme of work;</li> <li>▶ Seeking assurances from the auditors of these subsidiaries to ensure their 2020/21 financial statements do not contain material misstatements which may impact the consolidated group financial statements;</li> <li>▶ Reviewing consolidation entries and workings to ensure that financial performances and balances of the four subsidiaries have been appropriately consolidated into the Council's financial statements; and</li> <li>▶ Reviewing the Group Cash Flow Statement in the consolidated group financial statements and its workings to ensure appropriate disclosure in accordance with IAS 7.</li> </ul>	<p>As at 18 March 2022 our work in this area is well progressed.</p> <p>From our work to date, we have:</p> <ul style="list-style-type: none"> <li>▶ <u>Optalis:</u> We have reviewed the work carried out by Hazlewoods Ltd and have no issues to report.</li> <li>▶ <u>WBC Holdings Ltd:</u> We have reviewed the work carried out by Haslers Ltd and have no issues to report.</li> <li>▶ <u>Group Consolidation:</u> We have reviewed the consolidation entries and underlying workings. Queries are remaining to be resolved on certain aspects of the consolidation process, which will then allow us to conclude our work.</li> </ul> <p>We will provide an update at the Audit Committee on 30 March 2022.</p>



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# 03 Audit Report



# Audit Report

## Draft audit report

### Our draft opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOKINGHAM BOROUGH COUNCIL

##### Opinion

We have audited the financial statements of Wokingham Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority Comprehensive Income and Expenditure Statement, Group Comprehensive Income and Expenditure Statement, Authority and Group Movement in Reserves Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement and the related notes 1 to 47; Housing Revenue Account Income and Expenditure Statement, Movement on the HRA Statement and the related notes 1 to 13; the Collection Fund and the related notes 1 to 3; and the Authority and Group Statement of Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Wokingham Borough Council and Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of

the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Deputy Chief Executive (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of 24 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Deputy Chief Executive (S151 Officer) with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Authority's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive (S151 Officer) is responsible for the other information.



# Audit Report

## Draft audit report (cont.)

### Our draft opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;

- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

#### Responsibility of the Deputy Chief Executive (S151 Officer)

As explained more fully in the Statement of the Deputy Chief Executive (S151 Officer) Responsibilities set out on page 11, the Deputy Chief Executive (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



# Audit Report

## Draft audit report (cont.)

### Our draft opinion on the financial statements

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
  - Local Government Act 1972,
  - School Standards and Framework Act 1998,
  - Local Government and Housing Act 1989 (England and Wales),
  - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
  - Local Government Act 2003,
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - The Local Government Finance Act 2012,
  - The Local Audit and Accountability Act 2014, and

- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Authority has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

- ▶ We understood how Wokingham Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit and those charged with governance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Authority's committee minutes. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- ▶ We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.
- ▶ To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Authority's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- ▶ To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. In addition, we assessed whether



# Audit Report

## Draft audit report (cont.)

### Our draft opinion on the financial statements

the judgements made in making accounting estimates were indicative of a potential bias and evaluated the business rationale of any significant transactions that are unusual or outside of the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

35 We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Wokingham Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Wokingham Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Wokingham Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

#### Use of our report

This report is made solely to the members of Wokingham Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton

Date



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# 04 Audit Differences





# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements greater than £5.76m as at 18 March 2022 which will be corrected by management that were identified during the course of our audit:

37	Corrected misstatements 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
		OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
	<b>Errors</b>						
	<b>Known differences:</b>						
	<ul style="list-style-type: none"> <li>▶ <b>Incorrect accounting treatment of the Grants received</b> The following grants were incorrectly recognised either the Council being the principal instead of agent or vice versa               <ul style="list-style-type: none"> <li>▶ Business support Grant (Recognised as principal instead of agent)</li> <li>▶ LRS Grant (Recognised as principal instead of agent)</li> <li>▶ Infectious Control Grant (Recognised as agent instead of principal)</li> </ul> </li> </ul>		Income 19,205  Expenditure (19,205)  Income 7,278  Expenditure (7,278)  Income (2,684)  Expenditure 2,684				

(Continued on next page)



# Audit Differences

## Summary of adjusted differences (Cont.)

We highlight the following misstatements greater than £5.76m which have been corrected by management that were identified during the course of our audit: #

Corrected misstatements 31 March 2021 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
<b>Errors</b>						
<b>Known differences:</b>						
<b>39</b> <b>08</b> Valuation indexation incorrectly applied to properties already disposed of The Shinfield Infant School, Westende Junior School and Keep Hatch Primary School were incorrectly included in the valuation indexation applied to properties after their disposal.	4,178	2,154		(6,332)		
▶ <b>Incorrect classification of properties developed to be sold at market value:</b> Construction costs pertaining to the development of the Elms Field Development has been incorrectly classified as Assets Under Construction in PPE instead of Inventories			TBC	TBC		

A small number of other amendments were made to disclosures appearing in the financial statements as a result of our work.

As elements of our audit work are ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Audit Committee at the meeting on 30 March 2022 if we identify any issues by the time of the meeting.



# Audit Differences

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2021 (£'000) 		Effect on the current period: 	Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
 Errors						
Projected differences:						
<ul style="list-style-type: none"> <li>▶ <b>Capital Receipts in Advance</b>                Projected difference in the incorrect classification of receipts during the financial year under review.</li> </ul>		TBC				TBC
Judgemental differences:						
<ul style="list-style-type: none"> <li>▶ <b>Land and Buildings included in PPE</b>                Judgemental differences identified in the valuation of Land and Buildings included in PPE</li> </ul>	3,360			(3,360)		
<ul style="list-style-type: none"> <li>▶ <b>Land and Buildings included in IP</b>                Judgemental differences identified in the valuation of Land and Buildings included in PPE</li> </ul>		2,320		(2,320)		



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**05 Value for Money**



# Value for money

## The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

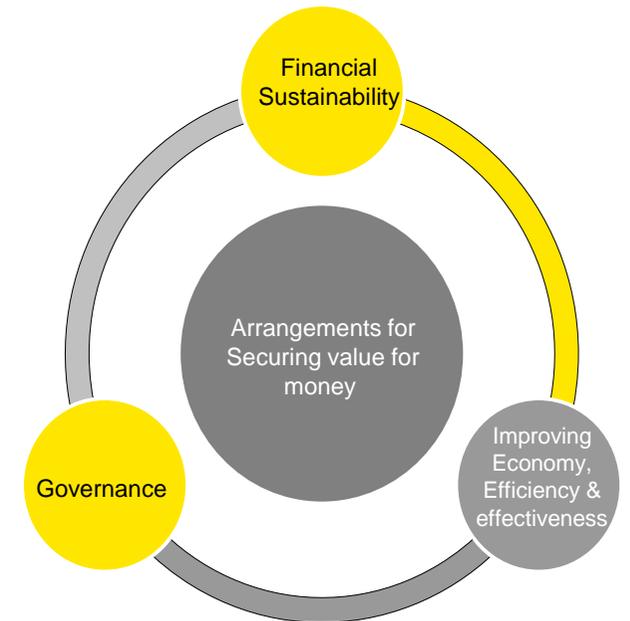
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

We have previously reported to the Audit Committee the outcome of our assessment of the risk of significant weaknesses in the Council's VFM arrangements - that we had not identified any risks. We have revisited our risk assessment and have not identified any additional risks.

## Status of our VFM work

We have completed our planned VFM procedures and have no matters to report by exception in the auditor's report (see Section 03). We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report. This will be within three months of issuing the auditor's report.





# 06 Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet been able to perform the procedures required by the NAO on the Whole of Government Accounts submission. This is because HM Treasury are continuing to review the online 2020/21 WGA Data Collection Tool (DCT) and update the guidance that is available for preparers. Based on the last available update the DCT and guidance was not expected to be available until later in 2022. Therefore the 2020/21 WGA component data will not be available for auditors to review until after that. Group Audit Instructions and the timetable for 2020/21 will necessarily follow any changes HMT make to the DCT and process.

## Other reporting issues

# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”).

We did not identify any issues which required us to issue a report in the public interest.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

#### Any significant difficulties encountered during the audit:

- The 2020/21 financial statements audit has taken longer than anticipated due to issues arising from our work on the valuation of Land & Buildings in PPE and IP and Pension Liability and Asset Valuation as detailed in section 2 and 4 above, as well as the sector-wide impact by the Covid-19 pandemic and working offsite. We have reported our findings to date with all necessary adjustments affected to the financial statements. We recognise this has been an very challenging year for the Council and its finance team as they have continued to be stretched in their response to Covid-19 issues.
- The auditors of the Berkshire Pension Fund provided the Council's IAS19 employee benefit local government Pension Fund assurances in mid-January 2022. As detailed in section 2 above, these assurances contained a caveat stating that their work was ongoing at the time of its issuing and that there is still a risk of material matters arising. We are consulting with our professional practice department on the impact of this caveat for issuing our auditor's report. These assurances further indicated that differences in membership data used by the Pension Fund actuaries existed, and consequently require further assessment by our pensions specialist to determine the potential impact thereof on the pension fund liability value at year end.

# Other issues

### The issue and what did we do?

#### **Minimum Revenue Provision (MRP):**

Wokingham Borough Council are required, under the 2003 Local Government Act, to charge Minimum Revenue Provision (MRP) to its revenue account in each financial year. In calculating a prudent provision, local authorities are required to have regard to statutory guidance issued periodically by DLUHC.

DLUHC consider that the methods of making prudent provision include the options set out in its guidance but does not rule out or preclude a local authority from using alternative methods of making prudent provision should it decide that is more appropriate. Whilst the Council has accounted for MRP in line with its own policy, this is not fully aligned to the suggested approach outlined in the regulations as:

1. The Council's policy does not require a charge for MRP on capital loans.
2. Only 10% of the investment property expenditure is being repaid through its MRP charge.
3. No charge is applied to capital expenditure for which funding is expected in future years.

 The policy has been agreed by Council with delegation to the Section 151 Officer, and Regulation 28 states it is for the Council to determine what constitutes a minimum revenue provision. However, in the light of expected revised guidance from DLUHC, the Council will need to review its current policy to ensure it meets future legislative requirements and good practice.

#### **Capital Receipts in Advance:**

Wokingham Borough Council recognises Section 106 grants and contributions in accordance with the Code requirements as either revenue or receipts in advance depending on conditions and restrictions attached to it. During our testing of the section 106 grants that were accounted for as Capital Receipts in Advance in the Council's Statement of Accounts, we identified two representative items incorrectly recognised as capital receipts in advance instead of revenue. We have extended our testing on this balance to assess the extent to which this could indicate a misstatement within the untested population. This work remains ongoing at 18 March 2022.



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# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

However, we have the following issues to bring to your attention.

### Quality of the Statement of Accounts:

Although the Council published its Statement of Accounts published by the 30 July 2021, these had gaps in disclosed information due to the ongoing audit and finalisation of the 2019/20 Statement of Accounts at that stage. The finance department further continued to experience capacity constraints during the year with finance officers stretched during the preparation of these accounts. We are aware the Council has reviewed finance staff capacity and is recruiting new staff to improve resilience within the finance team. We have also agreed that we will carry out a review of the 2020/21 audit to assess what worked well, and what we can jointly improve, to ensure a smoother and more timely audit. Taken together, these measures should reduce the amount of time required for the audit.

### Amendment to the cyclical PPE valuation programme

Following on from the 2020/21 audit, we understand that management still propose to employ an external valuer to value the Council's PPE assets for the 2021/22 financial statements, as it does for its annual valuation of its investment properties. The intention will be that the Council's internal valuer will provide an initial challenge of the external specialist's assumptions, and provide greater assurance to the finance team preparing the financial statements. We agree this will provide the opportunity for additional challenge as set out above. We recommend that the valuer values a proportion of all the Council's asset types each year (rather than by category type every 5 years) so that the Council has a benchmark for indexation should it need it.

### Bank reconciliations of imprest bank accounts

Improvements to the processing and reconciliation of imprest bank accounts in the Council's portfolio were limited as these reconciliations were not performed on a regular basis which resulted in unexplained differences between the Council's accounting records and statements from the relevant financial institutions. Whilst appreciating that these differences are not material, reconciliations should be performed on a regular basis to ensure appropriate record keeping and prevent any undetected irregularities.

### Group accounts

Our work is ongoing as at 18 March 2022 with the impact on the financial controls still to be confirmed.



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Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The table below sets out a summary of the fees that are due to us for the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2020/21	Planned fee 2020/21	Final Fee 2019/20
	£	£	£
<b>49</b>			
PSAA Scale Fee - Code work	81,325	81,325	81,325
Scale Fee Rebasing: Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	58,655	58,655	58,655
<b>Revised Proposed Scale Fee</b>	<b>139,980</b>	<b>139,980</b>	<b>139,980</b>
2019/20 fee variation submitted to PSAA (Note 2)	-	-	56,411
2020/21 PSAA expected additional minimal core fees (Note 3):			
• VFM	TBC	10,000	-
• ISA 540 accounting estimates		11,500	
2020/21 proposed fee variation - other (Note 4)	TBC	-	-
<b>Total Scale Fee Variation</b>	<b>TBC</b>	<b>161,480</b>	<b>196,391</b>
Non-audit work - Housing Benefit Subsidy claim	TBC	51,236 (est)	47,000
<b>Total fees</b>	<b>TBC</b>	<b>212,716</b>	<b>243,391</b>

Continued over

## Relationships, services and related threats and safeguards

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### Note 1:

We outlined in our 2019/20 Annual Audit Letter (AAL) the basis on which the scale fees are set by PSAA. We also outlined a combination of factors which mean that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity and therefore it endangers the sustainability of local audit in the future.

Based on these factors, and in light of requests from PSAA to provide further detailed analysis we have estimated the impact on the Council, which has been shared with management but we did not reach agreement on that rebasing. This has been submitted to PSAA for review.

### Note 2:

In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we undertook additional work at a fee of £56,411 to deliver the audit in 2019/20. These additional fees were accepted by the Deputy Section 151 Officer in October 2021. The proposed fee variation has not yet been approved by PSAA.

### Note 3:

In August 2021, PSAA published 'Additional information for 2020/21 audit fees'. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes of a range of new and updated audit requirements. The figures included here are the minimum additional fee ranges set out in this document.

### Note 4:

Any further additional fees (over and above VFM and ISA540) for 2020/21 will be communicated to the Section 151 Officer following the completion of the audit.

## Other communications

### EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)



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# 08 Appendices

## Appendix A

# Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement  53	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report presented to the Audit Committee on 15 September 2021.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.  When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit Planning Report presented to the Audit Committee on 15 September 2021.
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.

# Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Wokingham Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.

## Appendix A

		 Our Reporting to you
<b>Required communications</b>	 <b>What is reported?</b>	 <b>When and where</b>
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report presented to the Audit Committee on 15 September 2021.</p> <p>Audit Results Report presented to the Audit Committee on 30 March 2022.</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report presented to the Audit Committee on 30 March 2022.
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	<p>Audit Planning Report presented to the Audit Committee on 15 September 2021.</p> <p>Audit Results Report presented to the Audit Committee on 30 March 2022.</p>

# Management representation letter

## Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

Helen Thompson  
Ernst & Young LLP  
Grosvenor House  
Grosvenor Square  
Southampton  
SO15 2BE

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This letter of representations is provided in connection with your audit of the financial statements of Wokingham Borough Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Wokingham Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have

# Management representation letter

## Management Rep Letter

not corrected these differences identified by, and brought to the attention from, the auditor because xxx.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - ▶ involving financial statements;
  - ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - ▶ involving management, or employees who have significant roles in internal controls, or others; or
  - ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - ▶ Additional information that you have requested from us for the purpose of the audit; and
  - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council, the Executive Committee and the Audit Committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Council on 24 March 2022; Executive Committee on 22 March 2022; and Audit Committee on 30 March 2022.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

# Management representation letter

## Management Rep Letter

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6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  7. From the date of our last management representation letter at 16 December 2020 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

### E. Going Concern

1. Note 3 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. Other than Note 5 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in Notes 15 and 17 to the financial statements, we have no other line of credit arrangements.

# Management representation letter

## Management Rep Letter

### I. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment property, HRA properties and IAS19 pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### K. Estimates

- i. **Revaluation of land and buildings classified as property, plant and equipment, investment property and HRA properties**
- ii. **Pension liability and asset valuation**

1. We confirm that the significant judgments made in making the revaluation of land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation.

3. We confirm that the significant assumptions used in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation appropriately reflect our intent and ability to carry out these valuations on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialized skills or expertise has been applied in making the land and buildings classified as property, plant and equipment, investment property, and HRA properties, and the pension liability and asset valuation.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

### L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

## Appendix B

# Management representation letter

### Management Rep Letter

\_\_\_\_\_  
(Deputy Chief Executive - S151 Officer))

61 I confirm that this letter has been discussed and agreed at the Audit Committee on 30 March 2022.

\_\_\_\_\_  
(Chairman of the Audit Committee)

## Appendix F

### Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing. 

IFRS 16 theme	Summary of key measures
Data collection  <span style="font-size: 2em; font-weight: bold; display: block; margin-left: -20px;">62</span>	Management should: <ul style="list-style-type: none"> <li>▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.</li> <li>▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases</li> <li>▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.</li> </ul>
Policy Choices	The Council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> <li>▶ Whether to adopt a portfolio approach</li> <li>▶ What low value threshold to set and agree with auditors</li> <li>▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components</li> <li>▶ What is managements policy in relation to discount rates to be used?</li> </ul>
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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